The New York Times https://nyti.ms/sfagiE

SMALL BUSINESS | SMALL-BUSINESS GUIDE

When Should a Small Business Hire a Finance Chief?

By DARREN DAHL OCT. 26, 2011

At Quickoffice, which sells software that allows users to create and edit documents on mobile devices, Alan Masarek always enjoyed getting deep into the numbers of his business — almost as if he were chief financial officer instead of chief executive.

That is because Mr. Masarek, who helped found the Plano, Tex., business in 2002, has a background in finance. “I always wore two hats in my business: the C.E.O. hat and the de facto C.F.O. hat,” he said, adding that he relied on staff accountants and a controller to help him run the everyday accounting functions of the company.

That changed in 2010, when he decided to hire a full-time chief financial officer. “Not every company needs a C.F.O.,” Mr. Masarek said. “It depends on how dynamic the business is. I needed to hire someone who could function as my business partner and allow me to step away from the books so I could manage other aspects of the business better.”

Generally, as start-ups grow, they hire outside accounting firms. Often, the accountants handle only the taxes and maybe the payroll. If the company continues to grow, and its financial reporting requirements become more complex, the chief executive might decide to bring on a full-time controller who can take charge of maintaining the business’s general ledger and bank accounts. On the other hand, the decision to bring on a finance chief is often tied to strategic decisions, like performing competitive market analysis, raising capital or securing credit.

THE TIPPING POINT A C.F.O. typically takes responsibility for financial analysis, accounting and budgets, along with overseeing insurance, banking, real estate, health insurance, accounts receivable and legal issues.

"When the C.E.O. is being distracted from critical revenue-generating activities to handle financing or similar issues, it's time for the C.F.O. to take his place and make these things happen," said Mike Henderson, the finance chief of Lendio, a company with annual revenue of $9.6 million that is based in South Jordan, Utah, and helps small businesses secure loans. "Once the C.E.O. starts to feel the pain, act quickly, because a good C.F.O. can provide tremendous unforeseen support and help avoid some of the growth problems companies face."

No matter how small, any company can benefit from having a finance chief to help organize its finances and track its performance. Typically, however, hiring one does not become essential until companies reach a tipping point — often $10 million to $20 million in revenue, according to Mr. Masarek and other chief executives interviewed for this article.

The main reason companies hesitate, of course, is the cost — most finance chiefs are paid six-figure salaries. That expense becomes more palatable when the company has more revenue and the company's numbers need to be analyzed and communicated.

"I like to say that a controller is always looking backward in their role of financial reporting and closing the books," Mr. Masarek said. "But a C.F.O. is always looking forward, someone who will own the accounting functions but also get involved strategically in how we handle things like debt and equity and how we finance the company moving forward."

Companies that do not have the revenue to justify paying someone a six-figure salary may consider hiring someone to play the role part time. For example, when her advisory board suggested she hire a C.F.O. after her company hit $2 million in revenue, Bibby Gignilliat, founder and chief executive of Parties That Cook, which stages hands-on cooking parties and corporate team-building events, turned to a consultant on that position.

Jeff Gustafson, whom Ms. Gignilliat pays $150 an hour for typically eight hours a month, took on several critical projects for the company, including building an extensive financial model that demonstrated the impact of expanding into new cities, hiring employees and raising prices. “It has allowed me to be the C.E.O., working on the business versus working in the business,” Ms. Gignilliat said.

DEALING WITH INVESTORS For growing companies, a common trigger can be the decision to bring on investment capital. At these companies, the finance chief often becomes the liaison charged with keeping investors updated on how the company is performing.

Paul M. Doman, chief executive of the Accurate Group in Charlotte, N.C., which provides financial services to banks and mortgage lenders, made the decision last February to hire a finance chief to help manage his relationship with Evolution Capital Partners, a private equity fund based in Cleveland.

“My expectation from a C.F.O. tends to be high,” said Brendan D. Anderson, a partner in Evolution Capital. “I almost view the C.F.O. as the next step to the C.E.O. in that they understand everything and can communicate verbally and in writing how the business is performing, how the plan is coming together and also forecasting where budgets and projects are headed.”

Forecasting performance is particularly important if a company sets its sights on an initial public offering. That is why Karen S. Camp joined VirtuOz, which is based in Emeryville, Calif., and provides companies with virtual agents for online marketing, sales and support.

VirtuOz, which has 75 employees and more than $10 million in annual revenue, is considering pursuing an initial public offering in the next few years — a process Ms. Camp has guided other companies through five times as an investor and finance officer.

“Even though we are not yet a public company, we will eventually do an I.P.O. or be acquired by a public company,” Ms. Camp said. “In my role as C.F.O., I have to make sure that the nuts and bolts, reporting standards and control systems are up to a public company standard.”

In addition to her internal duties, Ms. Camp said that an important part of her job is building visibility for the company with investment bankers and analysts. “It’s all about language and communication and understanding what they need to hear,” she said.

PREPARING FOR DUE DILIGENCE Finance officers can also bring tremendous value to a company when it is considering making an acquisition or preparing itself to be acquired. For instance, when Sharon Napier spun off her Rochester, N.Y., marketing agency, Partners & Napier, from a holding company in 2004, she wanted to put her agency on the fast track to growth.

“I wanted to be in an agency that would be nationally recognized,” she said. “I figured that would likely mean that we would need to eventually make an acquisition or be acquired. And having a C.F.O. on board to manage that was part of that strategy.”

She hired Jim DiNoto for the post in 2001 and made it a crucial part of his job to analyze the market for potential acquirers or acquisitions and to ensure that the company’s books would be ready to stand up to any due diligence process.

The turning point for Partners & Napier came when it began discussions with a newly formed holding company, Project: WorldWide, about being acquired. Ms. Napier credits Mr. DiNoto with shepherding the process along until the deal was finalized in January.

“Jim took the lead role in providing the data Project: WorldWide needed from us,” she said. “He had to interact on a daily basis for eight weeks with their C.F.O. and mergers-and-acquisition team working over every single financial issue. An acquisition can break down if you can’t provide the right data or think ahead to what might be needed, and that’s where a C.F.O. like Jim is invaluable to a business.”

The bottom line is probably this: hire a C.F.O. as soon as you can afford one.

A version of this article appears in print on October 27, 2011, on Page B6 of the New York edition with the headline: When Should A Small Business Hire a Finance Chief?.